



NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

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Vice Chairman, Board of Directors
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**Before the House Committee on Government Reform
Subcommittee on Government Management,
Finance, and Accountability
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Mr. Chairman:

I am pleased to be here today to discuss my perspective on how the Academy thinks financial management can be improved in the federal government. As Academy President Morgan Kinghorn indicated, I am the Vice Chairman of the Board of Directors of the National Academy of Public Administration. I am also a Professor and the Director of the Management Finance and Leadership Program at the School of Public Policy at the University of Maryland. And, for many years I have been a senior finance executive at the state, local and federal levels of government. My service in the federal government included being the Chief Financial Officer (CFO) at the Department of Housing and Urban Development the Controller at the Office of Management and Budget (OMB), and then the Deputy Director for Management at OMB. The views presented today are my own and are not necessarily those of the Academy as an institution.

Mr. Kinghorn has discussed with you how we at the Academy have organized our work plan to review your charge to the Academy and he has given you the general framework under which we will work. We believe our work will lead to recommendations that will be useful to your Committee.

What I would like to do is to take a few more minutes and give you some additional comments we have heard from the meetings we have had to date as well as some of my own thoughts. Let me start with an agency that we have not addressed so far—the Department of Treasury and then move on to four other observations:

The Department of the Treasury is a major player in the financial management world and must continue to provide strong leadership.

The discussions in our meetings have centered on several elements, such as: the need for the Treasury Department to provide timely data; their need to perform cash reconciliation; the need for more modern systems to facilitate the transmission of data; and most often cited, the need for the Department to operate in close coordination with OMB. The Treasury Department has an opportunity to take a co- leadership role concerning financial management, particularly as it relates to accounting and financial reporting.

- **Inconsistencies between the CFO Act and the Clinger Cohen Act.**

Several executives suggested that the two acts need to be harmonized to ensure the objectives of Congress were being met by these two laws particularly in regard to the responsibility of the CFO for financial systems. Perhaps, as others suggested in the conversations, this is a result of tension between the agency CFO and the agency CIO's--- particularly as it relates to system implementations. Most participants agreed that system implementations have not gone well in all departments and agencies and that the cost of such systems has been quite expensive and in some instances large scale endeavors have had to be abandoned. It was not clear from our discussions, to date, if this is due to inconsistencies in

the laws or simply because of poor communication, turf battles, or other internal issues.

- **The organization of finance and budget data-- and related information—has not been uniformly useful to the success of program management.**

Simply put, there is the belief that the finance community has not packaged financial data in such a way as to entice the program managers to use such information in the day to day management of their programs. Some participants went so far as to suggest that the CFO community has failed the program management community by concentrating exclusively on financial statements, unqualified opinions and other aspects of accounting and has not to addressed the daily information needs of the user community.

- **The linkage between enhanced internal controls and performance management has greatly improved the public awareness of government programs, but more needs to be done.**

The financial management community is keenly aware of their management and internal control responsibilities. This responsibility is not just for finance and accounting but for all program areas. The scope of internal controls has been expanding in recent years and now encompasses program performance objectives in addition to the traditional financial concerns. Today, this broader scope is

expressed in the current government-wide initiative toward budget and performance integration and the recent requirements that the Government Performance and Results Act annual performance reports be combined with the agencies' Annual Financial Reports required by the CFO Act. This single report is known as the Performance and Accountability Report (PAR), and it also contains the agencies' annual management control assurances.

The PAR approach goes substantially beyond the traditional annual assurances report in which the top manager of an agency simply certified that adequate internal controls were in place in the agency. Now, the report is more substantive—demonstrating in a widely available public document- the results obtained with federal funds and the safeguards being exercised to avoid financial, ethical, performance, and other lapses or losses in the programs for which the agency has responsibility. The CFO representatives we met with expressed pride in this accomplishment, but at the same realized that additional efforts are needed to enhance further their internal control programs and to carry out their overall management responsibilities.

- **The Role of the Inspector General (IG) in the 21st century needs to be re-considered.**

During our discussions several CFO's suggested that there were structural problems and conflicting missions within the Office of the Inspector General.

Specifically, some suggested that investigations and audit need to be separated. Others suggested that the IG should be term limited to ensure more independence and fresh thinking. Others suggested that in some instances the IG's undertake projects for which they have no expertise and therefore may issue reports that are harmful and misleading. The IG can be a very supportive member of the financial and performance management communities and we need to engage them to ascertain their views and recommendations. We will be doing this during the coming months.

Mr. Chairman, I am pleased to be here with you today. Financial management has been my profession for over three decades. I have observed financial practices at all levels of government. I have consulted to all levels of government on finance issues. Now, I continue to teach public finance to students who will be the leaders of the future. I want to do what I can to improve the financial management practices in the federal government and my position at the Academy gives me renewed opportunities to make that contribution. I am very pleased that you have asked the Academy to help you in this endeavor and on behalf of the Board of Directors I promise you our full cooperation.

I will be please to respond to any questions you may have.